

City of Detroit


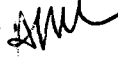
CITY COUNCIL

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TO: COUNCIL MEMBERS

FROM: Irvin Corley, Jr., Director 
Anne Marie Langan, Deputy Director 

DATE: March 13, 2008

RE: Preliminary Report on the Cobo Hall Expansion Project

In late February, Council President Cockrel asked the Research and Analysis Division, City Planning Commission and Fiscal Analysis Division to review documents that have been produced regarding the proposed expansion of Cobo Hall. President Cockrel was given many of these documents by L. Brooks Patterson and other Oakland County executives during a meeting on February 15.

On February 6, 2008, bills 5690, 5691 and 5692 were introduced in the state house for the creation of a regional convention facility authority; modification of the hotel accommodation tax for the purpose of funding the convention facility expansion; and amendment of the general sales tax act to allow for the creation of a sales tax-free zone in the regional convention facility.

These documents include the PowerPoint presentations on some of the expansion proposals, three volumes of Oakland County's concerns and suggestions on how to regionalize Cobo Hall.

The divisions also requested from Wayne County and promptly received copies of the studies that were prepared for the Detroit Metro Convention and Visitors Bureau by C.H. Johnson Consulting in January 2003 and February 2004 and another by KPMG dated June 2004.

A meeting with Matthew Schenk of the Wayne County Executive Office is scheduled later this week to respond to any questions and concerns the divisions have after reviewing the above materials.

Various proposals and different costs have been published and the timeline is as follows:

2003/2004	\$1.05 billion	Detroit - New building – Construction costs addressed only
2006	\$968 million	Wayne County -Construction Costs - \$425 million; remainder for operational costs and other up front costs
2007	\$425 million	Oakland County - Construction costs - \$425 million plus no more than \$15 million annually for operating costs (unclear how this is generated)
2007/2008	\$595 million	Wayne County – Construction costs - \$323 million; remainder for purchase of parking structures, \$20m payment to the Detroit Municipal Parking Dept.; endowment to subsidize operations, \$142 m; payoff of current Cobo debt, \$110 m.

Our review does not just focus on the latest proposal made by Wayne County, but tries to look at many of the projections and assertions made during these last 4-5 years and highlight incomplete information or concerns.

The Physical Condition and Expansion

1. In 2003, the needs assessment determined that an expansion for a total of 1.0 million sq.ft. that was contiguous was necessary to “retain” the auto show and the Society of Automotive Engineers (SAE) convention. The existing Cobo has 600,000 sq. ft. on the main floor and 100,000 sq. ft. on the lower level. The latest proposal will only add 120,000 sq.ft. and it is unclear if it is adjacent to the existing 600,000. Have the Detroit Auto Dealers Association (DADA) and the SAE agreed this new expansion number would be sufficient space? For how many years will this expansion be sufficient? Is the SAE still asserting the need for additional space, as the last 5 years seem to have produced a much smaller show? Similarly, with Porsche pulling out of the auto show this past January, will other high-end manufacturers also begin pulling out thereby reducing the space requirements from 5 years ago?
2. No mention is made in any of these documents about the direction of the expansion of Cobo Hall. On the renderings it looks like the expansion is on top of Cobo Arena. Is Cobo Arena to be demolished? Additionally no mention is made of Joe Louis Arena, what would happen if Olympia ends leasing JLA to build elsewhere and how that space would fit into the Cobo expansion plans?
3. The chiller system is connected between Cobo Hall, Joe Louis and Cobo Arena as well as the Veteran’s Memorial Building. Is a decision being made to separate these systems so future costs between the City and some Authority will not be entangled?
4. There are no supporting documents to substantiate the assertion that there are deferred maintenance costs for Cobo of \$209 million. It would be important to see the detail of that \$209 million that is alleged to be deferred.

It also would be important to see the detail outlining the construction costs of \$323 million as well as the detail behind the endowment for the operations subsidy, the defeasance of the Cobo Hall debt, and the Cobo Hall purchase price, for a total project cost of \$595 million. There should be pro-forma statements outlining the proposed assumptions for financing and payment schedules.

Other Governments' Inclusion in the Project

5. Oakland County believes that if Cobo is to be considered a true regional asset as stated by Wayne County, then the other 4 SEMCOG counties – Livingston, Monroe, St. Clair and Washtenaw need to be approached and included in this plan. Oakland County asserts that these counties should be included in the hotel tax legislation and they should have to turn over their liquor tax like the other three counties in the region. Currently the liquor tax for these 4 counties is roughly \$3.7 million per year. The value of the hotel tax is unknown. Is the question what can these counties actually bring to the project or is the point that symbolically the full region should support all regional projects?
6. Oakland County seems to at one point in their reports say how “unfair” it is to continue to tax the “citizens” with the hotel & liquor taxes after 2015 and at another point how “unfair” it is to extend the tax and not let the out-counties have their liquor tax collection back to use for property tax reduction or substance abuse programs.

It is unclear if there is real concern about not opening the legislation for modifications. Practically, the out-counties are going to miss that money that's been available for 23 years and taking it all for the convention expansion seems to minimize the political chances of getting any new legislation through. It seems like there will need to be a compromise position.

Maybe the out-counties should no longer get the “surplus” collections from the tri-counties and that should be funneled back to the debt service, which would give the project another \$15 M per year. Oakland County also recommends that in one of their documents.

7. The State of Michigan has recently announced that there will be a contribution from the state, at minimum \$150 million. This was announced subsequent to the latest modified plan from December 2007, so this money should reduce the amount of bonding that this project will need. No proformas, either pre-state participation or post-state participation have been made available by Wayne County. What chance is there that this participation will increase?

Other Financial Considerations

8. No mention is made of the relationship between the \$3 million in parking revenue that is assumed to be generated and the Red Wings playing at Joe Louis Arena. Don't the Arena Garage and the Cobo Hall garage depend on revenue from hockey games? When the Red Wings were on strike and the season was not played, MPD told Council that this severely impacted the parking system's revenues. What would happen if Olympia chooses not to use JLA after the lease expires? If the assumed \$3 million in parking revenue is it to be used for Cobo operations then what will cover operations or capital improvements for the parking garages?
9. The actual operating costs attributed to Cobo in the city's financial system average \$23 million from 2003 – 2006 and drop to \$14.78 for 2007. While there is no certainty if these costs are all inclusive, they greatly exceed \$9 million plus \$3 million from parking revenue as proposed in the county's latest plan, and doesn't even consider garage operating costs.
10. Wayne County is currently receiving a portion of the state cigarette tax, .6%, an annual amount of \$16 million, which covers the debt service from 1988 Fiscal Stabilization Bonds which will be paid off in 2010 as well as State Emergency Loan Board notes that were paid off in 1997. The county is believed to have a subsequent debt with the State of \$40 million from 1999 due to unpaid juvenile justice costs and it is believed that the county was to use the cigarette tax revenue beginning in 2011 to pay that debt. Oakland County proposes that the \$16 million be used as of 2011 for Cobo Hall debt.
11. No one in any of the writings has commented on the recent and upcoming openings of the casino hotels, the hotel at the Book Cadillac as well as the Fort Shelby hotel. These are new hotel rooms totaling 1,600 and should increase the hotel facilities tax revenue stream, most likely improving any pro-forma assumptions.
12. There needs to be more detail provided that supports David Sowerby's assumption that there are 16,619 jobs directly tied to the economic activity at Cobo Hall, which he projects to be \$594 million for the entire tri-county area.

The divisions will be working to get more information and will refer to the participants in the existing working group to provide many of the answers.

cc: Council Divisions
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Norman White, Chief Financial Officer
Pamela Scales, Budget Director
Kandia Milton, Mayor's Office
Kerwin Wimberley, Mayor's Office
Matthew Schenk, Wayne County Executive Office
Robert J. Daddow, Oakland County Executive Office